LE COPY

Office Supreme Court, U.S.
FILED
NOV 12 1958
JAMES R. BROWNING, Clerk

No. 444

# In the Supreme Court of the United States

OCTOBER TERM, 1958

---

PETROLITE CORPORATION, LTD., PETITIONER

*v.*

UNITED STATES OF AMERICA

---

*On Petition for a Writ of Certiorari to the United States Court of Claims*

---

## BRIEF FOR THE UNITED STATES IN OPPOSITION

---

J. LEE RANKIN,
*Solicitor General,*

GEORGE COCHRAN DOUB,
*Assistant Attorney General,*

MORTON HOLLANDER,
JOHN G. LAUGHLIN, JR.
*Attorneys,*
*Department of Justice,*
*Washington 25, D. C.*

## INDEX


| | Page |
|---|---|
| Opinion below | 1 |
| Jurisdiction | 1 |
| Question presented | 2 |
| Statement | 2 |
| Argument | 5 |
| Conclusion | 14 |


## CITATIONS

Statutes:

55 Stat. 31, as amended, 22 U.S.C. 414, *et seq.* 11

Miscellaneous:

*Exchange of Patent Rights and Technical Information Under Mutual Aid Programs*, Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 85th Cong., 2d Sess., Study No. 10, pp. 16-21 12

# In the Supreme Court of the United States

OCTOBER TERM, 1958

---

No. 444

PETROLITE CORPORATION, LTD., PETITIONER

*v.*

UNITED STATES OF AMERICA

---

*On Petition for a Writ of Certiorari to the United States Court of Claims*

---

## BRIEF FOR THE UNITED STATES IN OPPOSITION

---

### OPINION BELOW

The opinion of the Court of Claims (Pet. App. 1-10) is reported at 161 F. Supp. 618.

### JURISDICTION

The judgment of the Court of Claims was entered on May 7, 1958. Motions for rehearing, timely filed, were denied on July 16, 1958. The petition for a writ of certiorari was filed on October 13, 1958. The jurisdiction of this Court is invoked under 28 U.S.C. 1255(1).

## QUESTION PRESENTED

Whether the Court of Claims correctly determined that, in the circumstances of this case, the United States had fully discharged its obligation to compensate petitioner for the Lend-Lease use by Russia of petitioner's equipment and processes.

## STATEMENT

As a part of the World War II Lend-Lease program, the United States undertook to furnish the Soviet Union with American equipment, processes, and technical data essential to the refining of crude oil and to the production of crude oil products in the Soviet Union (Pet. App. 12-13). The present litigation is an outgrowth of this undertaking. The facts, in summary form, may be stated as follows:

1. In October, 1942, the United States advised petitioner, the Petrolite Corporation, Ltd., that the United States desired to procure for use in the Soviet Union, (a) the so-called Petreco dehydration and desalting equipment necessary for the employment of the Petreco process of electrical dehydration and the Petreco process of electrical desalting of crude oil; (b) the right to use these processes; and (c) the technical and process information necessary for the design, construction, installation, use, and operation of Petreco equipment and Petreco processes (Pet. App. 12, 13). Extended negotiations between Government procurement agents and Petrolite (Pet. App. 14-16) culminated in the submission by Petrolite, in January, 1943, of three proposals for supplying Petreco equipment. These proposals were accepted

by the United States and the three contracts were designated as Purchase Orders Nos. E 4025, E 8003, and E 10003 (Pet. App. 16) and purchase orders bearing these numbers were issued under date of June 24, 1943 (Pet. App. 16).

The three contracts covered the purchase of Petreco equipment with an aggregate purchase price value of $424,358 (Pet. App. 16). Each of the three purchase orders stated in effect that the purchase price included, in addition to the equipment, "the necessary engineering, design, drawings, and inspection of such equipment as herein provided", and Article II (B) provided for "Engineering for the design, specification and supply of the equipment" and "Plans, flow sheets, erection drawings and foundation drawings of the aforesaid equipment" (Pet. App. 17). Under Article IV (O) of each purchase order, Petrolite was required to furnish in writing "general operating instructions for the equipment" and it was provided that the cost of preparing, furnishing and delivering the instructions would be a part of the purchase price of the equipment and services (Pet. App. 17).

Each of the three proposals submitted by Petrolite on January 5, 1943, provided, in effect, that the proposal did not include the rights to use the Petreco processes nor any engineering or technical data, information, instructions or advice relating thereto "it being understood that Procurement Division, Treasury Department will make arrangements and provide compensation * * * for the use of such processes, etc. with the above described equipment in the U.S.S.R. * * *" (Pet. App. 17). By subsequent agreement

between Petrolite and the United States, entered into in July 1943 and antedated to May 28, 1943. Petrolite granted the United States a "nonexclusive indivisible license for use in the U.S.S.R. of the Petreco process of electrical dehydration and the Petreco process of electrical desalting in the units of equipment" described in the three purchase orders (Pet. App. 17-18). It was further agreed that payments to Petrolite were to be computed at the rate of one-half cent per barrel per day on the aggregate designed treating capacity (100,000 barrels per day) of the equipment (Pet. App. 18). The license agreement, which was to cover a period of eighteen months, provided (Pet. App. 19) that compensation, totalling $273,750 for the eighteen-month periods was to be paid in three installments, $91,250 upon execution and delivery of the agreement, $91,250 when operation involving the processes was begun, and $91,250 six months after operation was begun (Pet. App. 19). The agreement gave the Government the option, at a fixed rate of compensation, to extend the license beyond the eighteen-month period.

Operation of the Petreco processes commenced in Russia on or about August 10, 1945 (Pet. App. 32). In accordance with the license agreement, the United States paid Petrolite the sum of $273,750 covering operations for the eighteen-month period, August 10, 1945, to February 10, 1947 (Pet. App. 32).

By telegram of February 10, 1947, confirmed by letter of March 3, 1947, the United States notified Petrolite that it would not exercise its option to use Petrolite's processes beyond the eighteen-month period

covered by the license agreement and that for use of the processes beyond February 10, 1947, the Soviet government "will * * * become liable to pay directly to your corporation whatever royalties may become due by reason of such use * * *" (Pet. App. 32-33).

2. In July, 1944, Petrolite was advised by agents of the United States that additional Petreco equipment was to be procured for use in the Soviet Union (Pet. App. 21) and the United States proposed that the license agreement be extended to cover the use of Petreco processes for the additional equipment to be procured (Pet. App. 22-23). Petrolite was requested to advise whether the proposed extension "will meet with your approval" (Pet. App. 23). By letter of July 12, 1944, Petrolite acknowledged receipt of the proposal and advised that the proposal would be considered by Petrolite officers at the first opportunity (Pet. App. 23).

In October, 1944, a conference was held between Petrolite and agents of the United States at which it was determined that Petrolite would furnish a specially designed Petreco dual-stage counterflow electrical desalting plant together with the specially developed Petreco technical and process information. It was understood that Petrolite would submit for processing a proposal concerning the equipment and that later an agreement would be reached concerning compensation for use of the processes and for the technical and process information (Pet. App. 23). With respect to such compensation, Petrolite at the conference requested a greater rate of compensation than that provided in the existing license agreement

(Pet. App. 23). In reliance on assurances with respect to reasonable compensation and on the understanding that reasonable compensation would be paid, Petrolite consented that the United States could use Petreco processes and furnished Petreco technical and process information necessary for the use of the processes (Pet. App. 24).

Under date of November 17, 1944, Petrolite submitted a proposal to furnish Petreco equipment. This proposal was accepted by the United States and incorporated in a Treasury Procurement purchase order designated as 4 H 482, dated November 29, 1944 (Pet. App. 24). Petrolite's proposal included reservations with respect to the right to use Petreco processes, etc., identical to the reservations included in prior proposals (Pet. App. 17, 24-25).

The proposal and purchase order, as amended and accepted by the parties, fixed the purchase price of Petreco equipment at $200,121.12, which included the necessary engineering, design, drawings, and inspection of equipment, including the "Engineering for the design, specification and supply of the equipment" and the "Plans, flow sheets, erection drawings and foundation drawings of the equipment" (Pet. App. 25). By Article IV(f) of the purchase order, it was agreed that Petrolite, as part of the purchase price, would furnish operating instructions for the equipment, subject to the following proviso (Pet. App. 25):

> Providing, however, anything herein to the contrary notwithstanding, the provisions of this subdivision (f) OPERATING INSTRUCTIONS, shall not be effective or operative for any purpose

whatsoever unless Treasury Department, Procurement Division, shall make arrangements and provide compensation satisfactory to Petrolite Corporation, Ltd. for the use of the processes, etc. with the above described equipment in the U.S.S.R. as provided in ARTICLE III of the Proposal and no reduction or deduction from the aforesaid lump sum price for equipment and services shall be made because such operating instructions are not delivered in the event above referred to agreement is not made.

3. (a) The purchase price of the equipment, $424,358, covered by Purchase Orders E 4025, E 8003, and E 10,003, was fully paid by the United States (Pet. App. 2). This equipment was furnished by the United States to the Soviet Union (Pet. App. 26). Payments totalling $273,750, as provided in the eighteen-month agreement (Pet. App. 18-19), were also paid to Petrolite by the United States (Pet. App. 3). The United States has repeatedly requested the Soviet Union to provide compensation to Petrolite for the use, beyond February 10, 1947, of the Petrolite equipment and processes. While reserving its right against the United States, Petrolite has unsuccessfully negotiated with representatives of the Soviet Union for payment of compensation (Pet. App. 34).[1]

The equipment specified in Purchase Order 4 H 482 was delivered to the United States and the purchase price $200,121.12, has been paid (Pet. App. 10). Petrolite repeatedly requested that, until an agreement providing for compensation for the use of the

[1] See, however, *infra*, p. 12.

plant and process was reached, the United States not make delivery of the plant and equipment. While acknowledging that a very minor part had already been delivered, the United States advised both Petrolite and the Soviet Union that the Petreco plant and equipment would not be delivered until the Soviet government had made satisfactory arrangements to pay Petrolite compensation. The evidence does not establish that the United States ever furnished this equipment to the Soviet Union (Pet. App. 27).

(b) By two petitions filed in the Court of Claims, Petrolite sought to require the United States to pay additional compensation for the continuing use by the Soviet Union of Petreco processes. The Court of Claims dismissed the petitions, holding (Pet. App. 1-10) (1) that upon expiration of the eighteen-month license agreement, without the United States exercising its option to extend the license, the United States was exonerated from additional liability; (2) that the United States was not obligated to pay for the use of Petreco processes in connection with equipment furnished under Purchase Order 4 H 482, because no agreement was entered into between Petrolite and the United States for compensation for the use of Petreco processes; and because the evidence does not show that this equipment was furnished the Soviet Union or that it was ever used by anyone (Pet. App. 9-10).

## ARGUMENT

1(a). The Court of Claims held that, upon termination of the license agreement between petitioner and the United States, on February 10, 1947, the

Government was relieved of further liability for the use by Russia of Petrolite equipment and processes, and, for additional compensation, petitioner must look to the Russian government.

This holding necessarily follows from the terms of the license agreement itself. By Section First of the agreement, petitioner granted the United States a nonexclusive license for the use in the Soviet Union of Petreco processes. This license was to extend for a period of eighteen months from and after the commencement of operation of Petrolite equipment and processes in the Soviet Union. Section Second of the agreement fixed the consideration for the eighteen-month license at $273,750 to be paid in three installments of $91,250. The consideration fixed by Section Second has been paid by the United States in full.

Section Third of the agreement (Pet. App. 19) granted to the United States an option to continue operation, at an agreed rate of compensation, beyond the eighteen-month period, for which the license was granted. The United States, however, by timely notice to petitioner, expressly declined to avail itself of the option, and advised petitioner that the Russian government was being advised by the State Department that use of the processes after February 10, 1947, "will make the Russians liable for payment of royalties to your corporation" (Pet. App. 32-33).

By declining to exercise the option to extend the license beyond the eighteen-month period, and by terminating operations under the Lend-Lease program, Section Fourth of the license agreement became oper-

ative. In pertinent part, Section Fourth provided (Pet. App. 20):

> Subject to the provisions of Section FIFTH hereof and without relieving the GOVERNMENT from any obligation therein referred to, the GOVERNMENT shall be relieved from the obligation to make all payments specified in Sections SECOND and THIRD hereof except those then due, and the license granted herein shall be terminated, if
>
> (1) * * *
>
> (b) The operation thereof under Lend-Lease has been terminated; * * *

Thus, by the express terms of the license agreement, upon termination of the operations under the Lend-Lease program, the United States was "relieved from the obligation to make all payments specified in Sections Second and Third except those then due * * *." In these circumstances, there can be no serious question that the license agreement was intended as a complete expression of the extent of the Government's obligation to compensate petitioner for the use of Petrolite processes by the Soviet Union. Since the obligation as specified in Section Second has been fully discharged and since Section Third never became operative, the petitioner is entitled to nothing by way of further compensation from the United States.

The force of the Section Fourth provision, exonerating the United States from further obligation upon termination of the Lend-Lease operation of Petreco equipment, cannot be avoided by the presence of the

expression "as part payment" in Section Second (Pet. App. 19) and related language in the "whereas" clause of the license agreement (Pet. App. 18). While, as noted by the Court of Claims, this language "somewhat confuses the matter," it is readily explained.

Upon expiration of operations of Petrolite processes under Lend-Lease, the obligation further to compensate Petrolite for continuing use of the processes by Russia became that of the Russian government. By Article IV of the Mutual Aid Agreement of June 11, 1942, between Russia and the United States, incorporated in the license agreement (Pet. App. 18), Russia agreed to take any action or make any payment necessary to protect the rights of a citizen of the United States who had patent rights to any defense article or information supplied under the Lend-Lease program (Pet. App. 18). Thus, payments specified in the license agreement were partial in the sense that upon termination of the license agreement Petrolite reserved, in Section Fifth of the agreement (Pet. App. 20), its right, whether under the Lend-Lease Act[2] or the Mutual Aid Agreement, to further compensation from the Soviet Union for the use of Petrolite processes beyond the period covered by the license. To the end that adequate compensation would be paid, the United States has used its offices to require Russia to live up to its commitments by repeatedly requesting the Russian government to provide compensation to Petrolite for the continued use of its processes (Pet. App. 34), and by securing

[2] 55 Stat. 31, as amended, 22 U.S.C. 411, *et seq.*

commitments from Russia to negotiate with Petrolite and others similarly situated (Pet. App. 34).

Negotiations between Russia and private concerns have now, apparently, come to fruition, since Russia has agreed to pay five companies, including petitioner, a total of $2,937,598.01 as compensation for the continued use of refinery equipment and processes acquired by Russia under the Lend-Lease program.[3] This factor, compensation by Russia, adds force to the interpretation given the license agreement by the Court of Claims.

(b) The Court of Claims was also correct in its disposition of petitioner's claim (Pet. App. 9-10) based upon Petrolite equipment purchased by the United States under Purchase Order No. 4 H 482 (Pet. App. 24). While petitioner has been fully paid for the equipment, it has received no compensation for the use of its processes in connection with this equipment, for the very good reasons that (1) no arrangements or agreements were made to provide

[3] *Exchange of Patent Rights and Technical Information Under Mutual Aid Programs*, Study of the Subcommittee on Patents, Trademarks, and Copyrights, of the Committee on the Judiciary, United States Senate, 85th Cong., 2d Sess., Study No. 10, pp. 16-21. By letter of May 19, 1953, petitioner advised the Department of State that it had, on October 1, 1952, concluded an agreement with Russia by which the latter agreed to pay petitioner $652,057.45 in consideration for a continuing license to use Petreco processes covered by the license agreement of May 23, 1942, between petitioner and the United States. The agreement of October 1, 1952, specified that Petrolite "does not waive, limit or prejudice in any way any claims, rights, suits or causes of action which it may have against the United States."

compensation (Pet. App. 25), (2) at petitioner's request the United States withheld shipment of the equipment to Russia (Pet. App. 34) and the evidence does not establish that the equipment or processes were ever furnished Russia (Pet. App. 27), (3) petitioner never delivered in writing any set of general operating instructions on the equipment (Pet. App. 25-26), and (4) no use of the equipment by anyone has been shown (Pet. App. 9-10). In the light of these circumstances, petitioner's asserted right to compensation for its processes is clearly without foundation.

2. From what has been said, *supra* pp. 8-13, it is apparent that the decision in this case turns upon contracts, facts, and circumstances peculiar to this case. There is no conflict of decisions and review of the decision will not serve to resolve any pending or anticipated future controversy or illuminate the general field of Government contract law.

---

Because of the express contractual arrangements between petitioner and the United States and the otherwise distinguishing factual circumstances present in this case, the decisions of this Court, relied upon by petitioner as establishing a conflict (Pet. 7-9), are inapposite.

## CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petition for a writ of certiorari should be denied.

J. LEE RANKIN,
*Solicitor General.*

GEORGE COCHRAN DOUB,
*Assistant Attorney General.*

MORTON HOLLANDER,
JOHN G. LAUGHLIN, JR.
*Attorneys.*

November, 1958

☆ U. S. GOVERNMENT PRINTING OFFICE: 1959 667455